



Highlights of HECM Financial Assessment and Property Charge Set Aside Policies

Last Updated: November 18, 2014

On November 10, 2014, the Federal Housing Administration (FHA) published its *Home Equity Conversion Mortgage (HECM) Financial Assessment and Property Charge Changes* Mortgagee Letter (ML 2014-22). This Mortgagee Letter announced a revised *HECM Financial Assessment and Property Charge Guide* (Guide) that provides additional guidance for mortgagees on various aspects of the HECM Financial Assessment. The chart below contains summary highlights of some of the key policy changes contained in the Guide. This document is not an authoritative source for FHA's policies, and mortgagees must review and comply with the entire Guide when originating HECMs.

Subject	Original Financial Assessment and Property Charge Guide	Revised Requirements
Documentation and Verification Requirements	<ol style="list-style-type: none">1. Modeled on Handbook 4155.12. Provided as Appendix	<ol style="list-style-type: none">1. Modeled on Handbook 4000.12. Included in body of Guide
Credit Reports	<ol style="list-style-type: none">1. Credit report may not be pulled prior to housing counseling2. In addition to mortgagors, credit report must be pulled for Non-Borrowing spouse in community property states	<ol style="list-style-type: none">1. A credit report may be pulled prior to housing counseling, but the mortgagor cannot be charged for the report prior to closing. Does not replace requirement for financial assessment. (ML 2014-21)2. No requirement for Non-Borrowing Spouse, except where necessary to calculate residual income to be used as compensating factor or to reduce family size, whether property is in a community property state or not. (Guide Section 2.2)

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Property Tax Exemptions and Deferrals	No reference	HUD has revised the Guide to permit mortgagees to exclude property taxes where such programs are in place. Where a Life Expectancy Set Aside must be funded, the calculation of the amount of the set-aside would not have to include the exempted charges. (Guide Section 2.26)
Satisfactory Installment and Revolving Credit	General standard only	HUD has revised the Guide to provide standards under which mortgagees may assess a mortgagor's credit history in terms of the type of accounts and the type of derogatory information. Where these standards are not met, the loan is not automatically rejected. It is subject to further analysis to determine the reasons for the derogatory information. (Guide Sections 2.15, 2.16)
Credit History for HECM For Purchase	<ol style="list-style-type: none"> 1. Required for mortgagors and Non-Borrowing Spouse in community property states. 2. Where no credit history, non-traditional credit history must be developed for mortgagors and Non-Borrowing Spouse in community property states 	<ol style="list-style-type: none"> 1. HUD has revised the Guide to make clear that the credit history of Non-Borrowing Spouses, whether the property is located in a community property state or not, need not be assessed by mortgagees. 2. HUD has clarified that mortgagees are not required to develop a non-traditional credit history for a Non-Borrowing Spouse, whether the property is located in a community property state or not. (Guide Section 2.8)
Definition of Non-Borrowing Spouse	No definition	Definition provided (Guide Section 3.5)
Definition of Other Non-Borrowing Household Member	No definition	Definition provided (Guide Section 3.6)

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Income from Non-Borrowing Spouse	<ol style="list-style-type: none"> 1. No definition 2. Used to reduce family size on Table of Residual Income 	<ol style="list-style-type: none"> 1. Definition provided. 2. Where a Non-Borrowing Spouse does have a source of income sufficient to meet their financial needs, and is willing to document that income for the purposes of calculating residual income, that income may be used to reduce family size on the Table of Residual Income, or cited as a compensating factor. (Guide Section 3.5)
Income from Other Non-Borrowing Household Member	<ol style="list-style-type: none"> 1. No definition 2. Used to reduce family size on Table of Residual Income 	<ol style="list-style-type: none"> 1. Definition provided. 2. No change. (Guide Section 3.6)
Using Non-Cash Benefits as Income	No reference	Provides guidance on counting non-cash benefits from these programs as income when calculating residual income, or as a reduction in expenses. (Guide Sections 3.68, 3.76)
Discount Percentage for Dissipating Financial Assets	Separate discount for each type of asset	HUD has revised the Guide to permit 100% of the asset to be counted except where the withdrawals from the asset are subject to Federal taxes. Where Federal taxes apply, mortgagees may use the lesser of 15% or the mortgagor's actual tax rate as the discount factor. (Guide Sections 3.69, 3.70)
Jointly-held Assets	No reference	May be counted provided mortgagor can document unrestricted use. (Guide Section 3.69)
Payments on Liens Being Paid Off with HECM	No reference	HUD has clarified that where a financial obligation such as a mortgage is being paid off, that monthly payment need not be included in the mortgagor's expenses. (Guide Section 3.77)

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Documentation for One Person Household when using Table of Residual Income	Must file tax return as single	HUD has revised the Guide to provide alternative documentation standards for mortgagors not required to file tax returns. (Guide Section 3.100)
Extenuating Circumstances	Examples only	HUD has revised the Guide to more clearly describe the factors mortgagees must take into account when applying extenuating circumstances to the assessment. (Guide Section 4.1)
Compensating Factors	Examples only	HUD has revised the Guide to provide a specific list of compensating factors and documentation requirements. (Guide Section 4.2)
Defined Life Expectancy Property Charges	No reference.	Definition and formula provided. (Guide Section 5.1)
Alternative to Fully Funded Life Expectancy Set-Aside.	<ol style="list-style-type: none"> 1. Withdrawals from Line of Credit or from monthly disbursements to pay property charges 2. Mortgagee pays property charges 	<ol style="list-style-type: none"> 1. Partially Funded Life Expectancy Set-Aside provides semi-annual payments to mortgagor. 2. Mortgagor pays property charges. (ML 2014-21, Guide Sections 5.5, 5.6, 5.7)
Requiring a Property Charge Set Aside and Determining Partial or Fully Funded Requirement	No reference	Matrix provides additional guidance on when a set-aside must be fully funded, partially funded, or not required. The matrix is not intended to cover every possible set of financial types of risk, but rather to provide guidance on how mortgagees may balance different types of risk, and the strengths and weaknesses of a given financial situation. Further, in all situations extenuating circumstances and compensating factors must be taken into account. (Guide Section 5.9)

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